



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

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GENERAL GOVERNMENT
DIVISION

APR 19 1979

Mr. Elijah B. Rogers
City Administrator of
the District of Columbia
District of Columbia Government

CNG 00052

Dear Mr. Rogers:

We have terminated our survey of the District's housing activities, including the Community Development Block Grant program, because our continued work would duplicate a review planned by the Department of Housing and Urban Development (HUD). In a recent letter to the Mayor, HUD's Washington, D.C., Area Office manager stated that during the next several months his office planned to review in detail the District's housing activities. *ACC 00028*

Although our survey was limited, we concluded that deficiencies we reported in 1975 still exist and, if not corrected, will continue to hinder progress in correcting housing inadequacies. Also, we found other weaknesses which should receive attention to improve program performance. For example, the loss in buying power of Community Development Block Grant money left idle during the first 3 program years in only 4 of the approximately 50 subprograms was more than \$900,000. Further, the ratio of nonprogram costs to program costs seems high. During the first 3 program years nonprogram costs accounted for almost 44 cents of every dollar spent.

Improvement is needed in identifying and solving the housing problems in the city. According to the available statistical data, a serious housing problem exists because of substandard conditions. Of 267,600 units, 23,233 are substandard; from January 1975 to September 1978, the Department of Housing and Community Development had completed or had begun construction on 3,107 new housing units. From July 1975 to September 1978, 2,885 existing units were rehabilitated or under rehabilitation construction. Also, the absence of a clear-cut housing program could cause loss of Federal funds and unnecessary increased costs because of delays in building or rehabilitating housing units.

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As one remedy for these longstanding problems, the Department needs to develop an effective system for identifying specific housing problems and developing reasonable approaches to solve them. For example, although the District established a housing data base system to provide information for the Department's planning activities, the system does not include information necessary to determine the address-specific condition of the housing inventory or the individual residents' needs for housing-related assistance.

HUD recently stated that the District had not made substantial progress in carrying out its approved Community Development Block Grant program. HUD conditionally approved the District's current year Community Development Block Grant application and funding for \$32.6 million, but withheld authority to obligate any of these funds pending correction of certain deficiencies.

We believe the Department of Housing and Community Development should establish a system that provides for, as a minimum,

- (1) --using the presently available data base and building on it to include the condition of all housing and the key characteristics of its occupants; establishing what needs to be done, who should do it, and when; and monitoring progress to ensure it is done timely;
- (2) --improving program planning by identifying housing needs on the basis of current data and more specifically defining housing objectives;
- (3) --monitoring closely the development of the program data system to insure its timely completion and implementation and its capability to provide information essential to assessing results;
- (4) --maximizing the use of available Community Development Block Grant funds by reducing non-program costs, expending funds more timely, and encouraging private investment; and
- (5) --examining successful procedures used in other localities with a view toward applying them to solve District housing problems.

In our view, the recommendation to use and improve the existing data base must be accomplished before the other recommendations can be adequately implemented.

The enclosure to this letter presents details of our survey observations.

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A copy of the details of our findings was sent to the Director, Department of Housing and Community Development. In a March 26, 1979, reply the Director wrote:

"I have carefully reviewed the material and find that the general recommendations regarding improvements, for the most part, reflect our own program objectives.

"I would like to briefly report on certain steps that we are already taking and will take with respect to the suggestions contained in your draft report."

The Director's detailed comments were considered in preparing this report, and are included, as appropriate, in the enclosure. Completion of the planned actions outlined in the Director's letter should alleviate many of the deficiencies we identified and substantially improve the District's Community Development Block Grant program. In this connection we think that one effort worthy of note is the planned rehabilitation of homes in the Bates Street area. Not only does this project return vacant housing to use; it represents a major breakthrough in developing a partnership between the City and the financial community to finance needed housing redevelopment in the District.

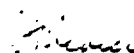
Copies of this report are being sent to the Mayor; each member of the Council of the District of Columbia; the Assistant City Administrators for Budget and Resource Development and Financial Management; the City's Director, Department of Housing and Community Development; the District of Columbia Auditor; and the City's Acting Inspector General. We are also sending copies to the Secretary of HUD and the Area Manager of HUD's Washington, D.C., Area Office.

While we appreciate the cooperation provided by Department officials during our survey, I must inform you of the inordinate delay in receiving the District's comments on our findings. On December 12, 1978, we provided the then Director with the details of our findings and requested a meeting by December 18 to obtain the Department's comments. The Department told us it preferred to respond in writing and requested a delay so the new administration could review and comment on the GAO statement. However, it was not until March 26, 1979, that we received a final response. Such delays adversely

affect our schedules and operations. In the future, failure to receive District comments within a reasonable time may cause us to issue reports without the District's comments.

Please advise us of actions taken on our observations and recommendations.

Sincerely yours,


Frank Medico
Assistant Director

Enclosure

OBSERVATIONS ON THE DISTRICT OF
COLUMBIA'S HOUSING ACTIVITIES

HIGHLIGHTS OF THE DISTRICT'S COMMUNITY
DEVELOPMENT BLOCK GRANT PROGRAM

The Community Development Block Grant (CDBG) program is the largest of the District of Columbia's housing programs. It provides the bulk of the funding for the city's housing and community development (CD) activities. Authorized by the Housing and Community Development Act of 1974, the program is now in its fourth year (CD-4), ¹/ which began October 1, 1978. Its objectives, as defined by the act, include the provision of adequate housing, a suitable living environment, and expanded economic opportunities for lower-income groups.

The CDBG program has 48 separate activities (subprograms). These activities are diverse and range, for example, from home counseling to rehabilitation loans to public housing modernization.

The program is administered by the Department of Housing and Community Development (DHCD), which has the equivalent of about 360 full-time personnel assigned to CDBG activities.

The amount of the District's annual entitlement of Federal CDBG funds is determined by formula. The formula criteria are population, overcrowded housing, and poverty. The following data for the District's CDBG program as of the end of CD-3 (the most recent full program year) shows the magnitude of the program's funding:

¹/CDBG program years are designated CD-1, -2, -3 and -4.

Cumulative entitlements as of end of CD-3	a/\$116,672,000
Less cumulative "HUD holdback" (note b)	<u>16,678,000</u>
Net funds available for use by District (nonholdback money)	<u>\$ 99,994,000</u>
Cumulative obligations (of non- holdback money) at end of CD-3	\$ 80,306,000
Cumulative expenditures (of non- holdback money) at end of CD-3	\$ 65,037,000

a/All figures are rounded to nearest thousand.

b/"HUD holdback" is the term applied to CDBG funds held back by HUD for repayment of outstanding urban renewal loans. These funds are not available to the District for program use.

HOUSING DATA BASE SYSTEM NEEDS IMPROVEMENT

In 1975 we reported that the District of Columbia did not have accurate and up-to-date housing data to (1) assess its current housing situation, (2) determine future housing and community development needs, and (3) monitor housing activities. Our subsequent reports have also pointed out inadequacies in the District's housing data base.

Although some improvement has been made, much of the situation we found 3 years ago still exists. Efforts to improve the data base have not been adequate because necessary elements have been excluded, and data used by the District continues to be out-of-date, making its reliability questionable. As a result, the city still does not have the information we believe is essential to (1) develop achievable housing and community development goals and objectives and (2) assess progress.

Lack of housing data previously reported

In October 1975, we reported a number of issues, including the need for a sound housing data base system to

assist the city in preparing its housing program. 1/ The District did not know the

- total inventory of units and their tenancy,
- vacancies in existing units,
- types of available structures and their physical condition, and
- housing demands.

The data the District did have and use was old and unreliable.

We recommended that the District give priority to establishing a housing data base system so that an accurate and up-to-date inventory of housing and housing conditions would be available to assess the current housing picture, determine future housing and community development needs, and monitor housing activities.

The need for housing data was again cited in two of our reports in 1976. 2/ For example, work on the District's 14th Street urban renewal area concluded that the absence of an inventory of currently owned properties was a major problem in the agency's property management and relocation of area residents. The specific knowledge of all properties involved in a project is a prerequisite to providing necessary services. The responsible District agency later established a list of its property but the system lacked procedures to record property as it is acquired, keep track of tenants, and control properties from the time they are designated until either a disposition is made or they are dropped from the plan.

1/Letter report to Mr. Julian R. Dugas, City Administrator, District of Columbia, Oct. 20, 1975.

2/Letter report to the Honorable Lawton Chiles, Chairman, Subcommittee on the District of Columbia, Committee on Appropriations, United States Senate (GGD-76-47), Feb. 9, 1976; letter report to Mr. Julian R. Dugas, City Administrator, District of Columbia, May 7, 1976.

Our fourth report, 1/ issued in February 1978, reiterated the District's need for vacant housing data--a need which was established in the October 1975 report. The report concluded that a housing program needs readily available and reasonably complete and accurate data on vacant housing to identify (1) an additional, sometimes major, source of potential housing; (2) vacant housing trends; and (3) potential blight areas needing attention. The District did not have a system to readily identify such housing and was not planning to include this information in its comprehensive computerized housing data base system.

Data base still inadequate

In late 1976, the Director, DHCD, stated that the Department had given high priority to developing a sound housing data base and was establishing a comprehensive computerized data base system in conjunction with the District's Municipal Planning Office. In August 1977, the "Municipal Automated Geographic Information System" (MAGIS) was created.

MAGIS is an expansion of the District's computerized file on real property tax assessments in the city. The data in MAGIS includes housing inventory items such as

- building address,
- owner's name and address,
- number of dwelling units per address,
- geographic codes (such as city ward number),
and
- building permits and licenses for future
building and improvements.

However, our recent work in the District showed that the system lacks several elements necessary to determine the address-specific condition of the housing inventory or the

1/"The District of Columbia Needs a Program to Identify Vacant Houses and Get Them Back on the Market" (GGD-78-35), Feb. 22, 1978.

individual residents' needs for housing-related assistance. The system includes no information on items such as

--building condition,

--population composition (family size, for example),
and

--income of the residents.

These elements are necessary so that clearly established needs for housing-related assistance can be identified and addressed in relation to housing supply.

The condition of housing and the demographic characteristics of its residents are available from census and commercially available data. This data has been excluded from MAGIS because, according to a DHCD official, it could not be kept current without expensive and time-consuming surveys. The data is excluded also because some commercially available data is not collected for the city as a whole and census data does not allow projections to be made at the block level.

DHCD has made separate surveys to identify vacant privately owned buildings and publicly owned properties, and this data has been put into the MAGIS system. The computerized system is not, however, capable of automatically updating this vacancy data. To keep the data current DHCD must continue surveying to identify vacant houses. This method is both expensive and time-consuming. In our February 1978 report (see p. 4) we recommended that DHCD get an accurate and up-to-date inventory of vacant houses on a routine basis by using the Department of Environmental Services' proposed meter reading and billing system.

Current available data not used

One of the main purposes for which MAGIS was developed was to provide information for planning DHCD activities. DHCD expected MAGIS to overcome the past problems associated with community development policy planning--a lack of relevant information and the use of incomplete or out-of-date data.

We reviewed the District's most recent (July 1978) application to HUD for its CDBG entitlement, which includes a statement of needs and a Housing Assistance Plan for lower-income households. The statement of needs is supported by

housing statistics, as are the Housing Assistance Plan's statements concerning the condition of the housing stock and housing assistance needs of lower-income households. Some sources used for the housing statistics are the 1970 Census, the 1974 Annual Housing Survey, District exterior building condition surveys dated 1969-72, and the Washington Center for Metropolitan Studies' 1974 Trends Alert. As evidenced above, data sources used by the Department are out of date, a condition we reported in our October 1975 report. Although some MAGIS data could have been used, it appears that DHCD is continuing to use incomplete or out-of-date information in its community development planning.

Recommendation to the Director, DHCD

The Director, DHCD, should use the presently available data base and build on it to also include the condition of housing and the key characteristics of its occupants, such as family size and income. He should establish also what needs to be done, who should do it and when, and monitor progress to ensure that it is done timely. This expansion of the data base would aid DHCD in

- assessing its current housing situation,
- projecting future housing problems and needs,
and
- establishing goals, objectives, priorities, and
milestones.

Agency comments

In his March 26, 1979, letter of reply to us, the Director said:

"We feel that this system [MAGIS] has provided the Department with the unique capability to track trends, classify neighborhoods according to needs, and provide the basis for formulating general strategies for the Community Development Block Grant Program. We agree, however, with your observations that the system would benefit from more specific data on income and household composition, which would enable better targeting of our programs. In that regard, we intend to

institute the collection of these data as part of a systematic code enforcement program and add them to MAGIS for analysis of program needs."

DHCD SHOULD BETTER IDENTIFY ITS NEEDS AND OBJECTIVES AND DEVELOP A SYSTEM FOR MEASURING RESULTS

The District's identification of housing and community development needs should be kept current and, to measure progress and accomplishments, its objectives should be better defined. Further, the District is unable to determine whether its objectives are being achieved because it lacks sufficient information on the results of its housing programs.

Outdated statement of needs and undefined program objectives hinder determining progress

DHCD is responsible for developing housing and community development policy, goals, objectives, priorities, strategies, and programs to meet housing and community development needs. According to DECD officials, the District's housing and community development needs and objectives are articulated within the District's annual application to HUD for CDBG funds. The application has a summary plan section which identifies the District's needs and specifies both short- and long-term objectives.

Some needs, as stated in the District's CD-1 to CD-4 applications, were not updated annually to reflect improvements made; outdated supporting statistical data was repeated identically year after year. Some objectives were general, vague, and undefined.

Example 1

The District cited the need for "concentrated, systematic checking of blighting influences and prevention of further deterioration in the housing stock" in each of its CD-1 to CD-4 applications. Data supporting this need was derived from exterior building condition surveys performed during the period 1969 to 1972. These surveys identified (1) approximately 17,400 buildings needing repair to continue to provide safe and decent shelter and (2) approximately 3,600 buildings requiring extensive rehabilitation.

This statement of need does not reflect deterioration that has occurred or housing improvements made since the surveys were performed. Since 1972, extensive demolition and some new housing construction have occurred, and increased public and private housing rehabilitation has helped to improve the District's housing stock.

Example 2

A short-term objective cited by the District in each of its CD-1 to CD-4 applications was to

"* * * provide for systematic city identification of historically and architecturally significant neighborhoods and structures, possible revision of ordinances, building codes and taxation policies, and establishment of special financial mechanisms to encourage preservation, rehabilitation and renovation of these."

This objective is general and vague, and it includes no criteria for identifying structures, establishing specific time frames, or assessing progress.

In summary, the District needs to establish specific housing programs on the basis of needs drawn from current data and directed toward achieving specific objectives.

The need for more specifically defined housing programs was also identified by the District's Legislative Commission on Housing. The Commission, established by the City Council in January 1976, issued an August 15, 1978, "prepublication copy" of its report to the Council. It recommended that the District develop an affirmative housing development program which "sets specific objectives and targets, and plans and timetables for their achievement in specific sections of the city."

A DHCD official responsible for developing the CDBG application acknowledged that objectives should be better quantified and more specific. He said that the objectives contained in CDBG applications do provide some general program direction but that their value is limited because of the lack of adequate planning staff and resources to do a thorough job and the relatively short time frame in which DHCD must prepare its annual application.

Recommendation to the Director, DHCD

The Director, DHCD, should improve DHCD's program planning by identifying housing needs on the basis of current data and more specifically defining housing objectives.

Agency Comments

As pointed out earlier (see pp. 6-7), the Director said that DHCD intended to use income and household data gathered in a systematic code enforcement program to determine program needs.

DHCD needs to develop sufficient information on the results of its housing programs

The DHCD does not have an effective system for gathering information to assess the results of its housing programs.

Two of our reports (see p. 3) pointed out the District's need for a system to identify and keep track of properties designated for rehabilitation and demolition.

Based on interviews with a number of developers and other housing professionals, the Legislative Commission on Housing, in its August 15, 1978, report to the City Council, stated, "Several interviewees observed that the Department of Housing and Community Development lacks an effective analytical mechanism with which to evaluate its programs."

According to DHCD officials, the Department's system for gathering data to monitor and assess its housing and community development programs consists of (1) assembling information from each administration within DHCD into a cumulative quarterly program status report and (2) preparing quarterly financial reports on the status of CDBG funds broken down by administration and activity. These quarterly reports are used as the basis for DHCD's preparation of its annual Grantee Performance Report, which DHCD is required to submit to HUD. Although these internal status reports provide monitoring information to management, they provide no assessment of what has been accomplished compared with what should have been accomplished.

DHCD officials said the Grantee Performance Report is the only comprehensive document prepared on the results of its activities. They stated that some special, more limited reports, such as City Council briefing reports on the CDBG program, are prepared on an ad hoc basis.

We reviewed DHCD's latest Grantee Performance Report, covering the period July 1975 to March 1978, to determine the progress achieved under the CDBG program. It was difficult to assess progress since (1) some of the data contained in the report was general and vague, and (2) program goals, with which program results could be compared, were not provided.

Also, it was difficult to assess progress by comparing actual accomplishments reported in the Grantee Performance Report with planned accomplishments stated in the annual CDBG applications. The report is a cumulative document and does not break out program results by individual CD years. Further, the 12-month period covered by annual additions to the cumulative report does not coincide with the 12-month period covered by the CDBG applications. For example, DHCD's latest Grantee Performance Report covered the period July 1975 to March 1978, while the District's CD-3 application covered the fiscal year October 1977 to September 1978. The different time frames hamper comparisons of the report with CDBG applications.

Progress on CDBG funded activities is presented in chart format in the Grantee Performance Report. The following examples from DHCD's most recent report illustrate the inadequacy of provided information for evaluating progress.

Example 1

Activity description: Real Estate Acquisition and Related Expenses--funds set aside to acquire (during CD-3) specified properties as well as those properties supporting the achievement of CD goals and objectives for new development and rehabilitation.

Cumulative budget: \$472,500

Cumulative obligations: \$170,000

Cumulative expenditures: \$14,500

Program status: Seven appraisals ordered; six settlements completed

Comments (problems encountered): None listed

Since no goals or milestones were provided, progress is difficult to evaluate. The "specified properties" to be acquired were not identified nor was the number of such acquisitions stated.

Example 2

Activity description: Day Care Program for children (aged 6 weeks to 14 years) of families in designated CD areas. Five day care providers, operating out of 21 facilities, provide these services.

Cumulative budget: \$2,035,000

Cumulative obligations: \$2,035,000

Cumulative expenditures: \$660,000

Program status: 942 preschool children and 587 children ages 6 to 14 received day care services

Comments (problems encountered): None listed

Since specific goals and milestones concerning the number of children to be served were not provided, it is difficult to evaluate the adequacy of performance or progress made by this program. Also, no assessment could be made concerning the appropriateness of services delivered since no data was provided on the types of services provided.

In our recent report 1/ to the Secretary of HUD, in which we discussed grantee performance reports for 12 entitlement

1/"Management and Evaluation of the Community Development Block Grant Program Need To Be Strengthened," CED-78-160, Aug. 30, 1978.

communities, we concluded that "these reports do not provide sufficient data for evaluating community block grant programs." The report also discussed two principal weaknesses of the Grantee Performance Report. First, "information requirements for performance reports do not provide HUD and community representatives sufficient information to measure progress and accomplishments and to determine whether the desired program results and benefits are being achieved". Second, performance reports "often contain incomplete or vague data that do not meet HUD requirements."

In response to our report, HUD stated it planned to improve the format and data requirements of the Grantee Performance Report; however, it was uncertain when it would complete these revisions.

DHCD officials said that the primary measure, or yardstick, used to determine progress is the financial status of each housing activity. For each DHCD activity top management's target milestone or goal for each month is the obligation of approximately one-twelfth of the activity's annual budget. The financial reports mentioned earlier are used to determine whether this milestone is achieved. If it is not, an inquiry is made to the administration responsible for the activity. DHCD officials also said allowances are made where the nature of an activity is such that obligations may not be incurred at an even rate. Nevertheless, we believe using the amount of obligated CDBG funds as the primary measure of progress is inadequate because it does not relate money spent to program accomplishments.

DHCD officials told us they were developing a computerized program data system which will provide effective measures of the status and accomplishments of each program. The system will be designed to provide information on every program or major activity within DHCD. The information will include

- financial data,
- progress and activity data within a program,
- data on the number and characteristics of persons each program serves, and
- detailed project-by-project data.

In a rehabilitation project, detailed project data included in the system might consist of (1) a description of the project, including its location, acquisition, and disposition dates, and (2) a listing of the major steps required to complete the project, along with a timetable for each step.

Among reasons DHCD officials cited for not having implemented this system earlier were a shortage of funds and staff expertise and the lack of uniform data collection procedures in DHCD. They said these problems still exist and may further delay implementation.

We believe DHCD must have a system for gathering program and financial data so management can assess program results, set effective policy, and make sound decisions.

Recommendation to the Director, DHCD

We recommend that the Director, DHCD, closely monitor the development of the program data system to insure (1) its timely completion and implementation and (2) its capability to provide information essential to assessing program results.

Agency comments

DHCD said that

- "Recent studies completed by the Department have already proved valuable in redirecting resources, reconsidering program provisions, and designing both different and new programs", and
- it planned to implement the program data system in stages, beginning in FY 1979, through improved data collection procedures and the computerization of key program accomplishments information.

DHCD NEEDS TO MAXIMIZE USE OF AVAILABLE CDBG FUNDS

DHCD should seek to make more moneys available for program activities and should put to work more of those moneys that are available. To do this it should

- minimize administrative and other nonprogram costs;
- obligate CDBG funds more timely, in accordance with a sound plan; and
- leverage more private investment money with CDBG money.

To insure that limited resources have a greater impact on program activities, DHCD should keep nonprogram costs to the minimum necessary to effectively administer the program. Expending or obligating CDBG funds as quickly as possible, in accordance with a sound plan, would reduce the impact inflation has on idle moneys and would hasten the implementation of CD activities. Finally, using CDBG funds as leverage to obtain private investor commitments would generate additional money to help meet housing needs.

Nonprogram costs consume a large part of the CDBG dollar

The Housing and Community Development Act of 1974 authorized expenditures for two categories of CDBG nonprogram costs: (1) Planning and Management Development and (2) Administration. DHCD incurs these nonprogram costs for such CDBG activities as citizen participation, data retrieval, neighborhood planning, comprehensive community development planning, and salaries. These nonprogram activities are principally responsible for providing direction and overall support for program activities.

HUD has not outlined specific criteria for the acceptability of nonprogram costs. Rather, it uses "reasonableness" as the general basis for acceptability. Approval of the District's application for CDBG entitlement constitutes HUD acceptance of the District's CDBG nonprogram costs.

During the first 3 years of the CDBG program (CD-1, -2, and -3), DHCD's total CDBG expenditures were \$65.0 million. Of that amount, its nonprogram expenditures were \$28.4 million (43.7 percent of total expenditures). Of every CDBG dollar spent, it cost DHCD 44 cents in nonprogram expenditures to support 56 cents worth of program activity. The following table shows a breakout of nonprogram expenditures during the period.

<u>Types of expenditure (note a)</u>	<u>CD-1 and 2</u>	<u>CD-3</u>	<u>Total</u>
	----- (000 omitted) -----		
Planning and Management Development	\$ 1,612	\$ 1,821	\$ 3,433
Administration	<u>17,616</u>	<u>7,347</u>	b/ <u>24,962</u>
Total nonprogram expenditures	<u>\$19,228</u>	<u>\$ 9,168</u>	b/ <u>\$28,395</u>
Total nonprogram and program expenditures	\$37,769	\$27,268	\$65,037
Nonprogram expenditures as a percentage of total expenditures	50.9	33.6	43.7

a/Expenditures rather than obligations were used because in expending funds previously obligated, additional non-program costs may be incurred.

b/Numbers do not add due to rounding.

HUD has neither defined nonprogram costs nor established criteria for reporting nonprogram costs. Consequently, grantee-reported data lacks uniformity. Therefore, data was not available, and we could not reliably rank the District's nonprogram-to-program cost ratio with those of other major cities.

DHCD cited the following reasons contributing to high nonprogram costs during the first 3 CD years:

--Delay in reorganizing the Department following the July 1975 consolidation of several District housing agencies into the new DHCD. DHCD officials stated that administrative costs were high after the operations of the various agencies were first consolidated and before (1) duplication between the agencies could be eliminated and (2) a cost allocation plan was established for all of DHCD's programs.

--The labor-intensive nature of the District's CD programs, such as rehabilitation assistance and neighborhood preservation. According to DHCD, such

activities require a higher proportion of funding for staff than activities involving large initial capital outlays for land and improvements.

- Unavailability of State and local funds which could be used to bear some of the administrative burden of the CDBG program. DHCD pointed out that other cities have State and local funds available to augment Federal funds.

In a letter to HUD concerning the District's CDBG administrative costs, the manager of HUD's Washington, D.C., Area Office added that the District, placed under the Federal pay system by home rule legislation, was required to pay "substantial salary increases" during CD-1 to CD-3.

Despite two developments which could logically be expected to lower DHCD's nonprogram costs, the trend of non-program costs as a percentage of funds available is upward. These developments are:

- A reduction in personnel whose salaries are charged to the CDBG budget. According to DHCD, the full-time equivalent staff for the CDBG program declined from approximately 550 during CD-1 to 359 in the current year, a 4-year reduction of 35 percent.
- A reduction in the District's CDBG entitlements. Under the provisions of the Housing and Community Development Act of 1974, the District's fund entitlement dropped from an annual average level of about \$42 million during the first 3 years to \$32.6 million in CD-4 and is expected to further decline each year through CD-6. With diminishing entitlements, some reduction in program activities can be expected.

The following table shows that despite the above developments, DHCD's budgeted nonprogram costs--both as a percentage of total entitlements and as a percentage of total entitlements less a HUD holdback--are expected to increase during CD-4, leaving a smaller percentage of entitlements available for program costs.

	<u>CD-3</u>	<u>CD-4</u>
	-----	-----
	(000 omitted)	(000 omitted)
Total entitlement	\$40,998	\$32,575
Less HUD holdback	<u>8,199</u>	<u>6,515</u>
Net CDBG funds available	<u>\$32,799</u>	<u>\$26,060</u>
Budgeted nonprogram costs	\$11,366	\$10,156
Budgeted nonprogram costs as a percentage of total entitlement	27.7	31.2
Budgeted nonprogram costs as a percentage of net CDBG funds available	34.7	39.0

In the table we compared nonprogram costs with both total entitlement and net CDBG funds available after deducting the HUD holdback (see p. 2) to acknowledge DHCD's conviction that the costs of administering the completion of urban renewal projects are program costs even though HUD holds the funds to repay urban renewal loans previously made to the city. With both methods of comparison, however, the trend is the same-- budgeted nonprogram costs are consuming a larger part of the decreasing monies, leaving a smaller percentage available for carrying out program activities.

New instructions for entitlement grant applications, issued by HUD on September 28, 1978, limit nonprogram costs to 20 percent of the net CDBG funds available. These instructions, which will apply to the District beginning in CD-5, reflect congressional concern about high nonprogram costs. The District will have to take major steps to reduce its nonprogram costs, especially in light of its continually decreasing entitlement grants.

Recommendation to the Director, DHCD

We recommend that the Director, DHCD, seek ways to reduce nonprogram costs of administering the CDBG program. This effort should include reexamining staffing requirements and the reasonableness of other, nonsalary administrative costs.

Agency comments

On March 26, 1979, a DHCD official said that DHCD efforts to reduce administrative costs had resulted in a decrease of 35 percent of salary costs in the CD program to date. He said the Department was continuing its efforts to reduce staff and other nonsalary administrative costs. Also, he advised that HUD instructions for entitlement grant applications for CD-5 provide new guidelines for the classification of such costs.

Unspent CDBG funds lose value
and indicate program delays

The average cumulative unobligated balance of CDBG funds at the end of each of the first 3 CD years was about \$17.3 million. The cumulative unobligated balance at the end of CD-3 was about \$19.7 million, or about 20 percent of the available funds. End-of-year unobligated balances in the individual activities (subprograms) within the CDBG program varied widely, with some amounting to 100 percent of available funds.

We do not suggest that DHCD could have or should have obligated all funds immediately on their availability. However, for some program activities, DHCD had allowed millions of dollars to remain idle for more than a year, and in some cases almost 2 years. Also, new funds were added to those already dormant for a long time. Further, some funds were reprogrammed from one activity to another in midyear, but allowed to remain dormant during the remainder of the year.

The table on page 19 shows (1) the total unobligated balance of funds in the CDBG program at the end of each CD year and (2) the unobligated balances at the end of each CD year for four activities with large balances of idle money for long periods of time. We did not calculate the loss in buying power resulting from idle money that remained in some of the 44 other activities in the CDBG program.

END-OF-YEAR UNOBLIGATED BALANCES
CD-1, -2 AND -3

Activity	CD-1			CD-2			CD-3		
	Unobligated balance as of end of CD-1 (Sept. 30, 1976)			Cumulative unobligated balance as of end of CD-2 (Sept. 30, 1977)			Cumulative unobligated balance as of end of CD-3 (Sept. 30, 1978)		
	Available for program activities as of end of CD-1	As percentage of funds available for program activities	Amount	Available for program activities as of end of CD-2	As percentage of funds available for program activities	Amount	Available for program activities as of end of CD-3	As percentage of funds available for program activities	Amount
	(000 omitted)	(000 omitted)		(000 omitted)	(000 omitted)		(000 omitted)	(000 omitted)	
Total CDBG Program	\$33,276	\$12,184	36.6	\$67,195	\$20,087	29.9	\$99,994	\$19,690	19.7
Selected Activities:									
Real estate Acquisition and Related Expenses	2,565	2,554	99.6	1,875	1,857	99.1	473	453	95.9
Demonstration Projects Fund	-	-	-	500	500	100.0	1,296	1,296	100.0
Minority Contractors Assistance Program	40	40	100.0	80	80	100.0	120	-	-
Rehabilitation Loan Fund	3,000	3,000	100.0	3,841	2,220	57.8	8,641	1,957	22.7

HUD has no established criteria for assessing spending rates, and the spending rate of CDBG funds is not, in itself, a reliable measure of program accomplishments. Slow spending, however, indicates delays in carrying out the CDBG program. Also, delays, because of inflation, reduce the buying power of unspent funds. Using the Department of Labor's Consumer Price Index covering all consumer items, we calculated the loss in buying power of money left idle for about 1 year or more during the first 3 CD years in the four activities shown in the preceding table. The following table shows our findings.

<u>Activity</u>	<u>Loss in buying power</u>
Real Estate Acquisition and Related Expenses	\$475,400
Demonstration Projects Fund	121,300
Minority Contractors Assistance Program	7,200
Rehabilitation Loan Fund	<u>310,300</u>
Total	<u>\$914,200</u>

The above figures are minimum, conservative approximations. For example, had we used Consumer Price Index data for house maintenance and repair services, which more accurately reflect the nature of many costs incurred in the CDBG program, the loss figures above would be greater.

DHCD cited numerous reasons for delays in obligating funds. Reasons were as varied as the activities concerned. Staff shortages and startup problems, however, were blamed for delays in a number of activities. Other reasons given were (1) City Council-imposed restrictions, (2) difficulties in attracting and retaining competent contractors, (3) time required to obtain neighborhood participation, (4) construction disputes, and (5) delays in relocating families into suitable housing. Our survey did not include an independent analysis of these or other causes cited. The contemplated HUD review of the District's housing activities may provide such an analysis.

Faster spending, as an end in itself, will not solve housing problems. Spending needs to be done in accordance with soundly developed specific objectives, priorities, and target dates. We believe that improvements in planning and in performance feedback, as discussed earlier, would encourage more timely spending.

Need for greater use of block grant
funds to leverage private funds

The District can increase the availability of private investment funds for meeting housing and CD needs by using CDBG funds to "leverage" such funds. Leveraging is the use of Federal and local funds to attract large amounts of private investment. The Housing and Community Development Act of 1974 reflects this use of CDBG funds as an expressed intent of the Congress. The act states that "the establishment and maintenance of viable urban communities" depend not only on Federal aid, but also on "increased private investment in support of community development activities."

The District, in its fourth-year CDBG application, dated July 15, 1978, stated that its "housing problems and neighborhood needs * * * cannot be met either by the Community Development Block Grant alone or by the total of all program resources available to the District." It further stated that "a better balance of resources from both the public and private sectors must be achieved."

We discussed the need for additional private resources in our October 1975 report to the District's City Administrator. In addition, a recent report ^{1/} on housing reinvestment activities in the city concluded that "public funds must be complemented by private funds if we are to effectively meet the housing needs of low and moderate-income households."

We believe that greater private involvement in rehabilitation and new housing construction for low- and moderate-income families is essential in view of the District's decreasing annual CDBG entitlements and increasing housing costs.

^{1/}"Toward a Local Partnership for Neighborhood Development," Final Report of the D.C. Neighborhood Reinvestment Commission, Apr. 17, 1978.

Many cities throughout the country are using CDBG funds to generate capital from local lending institutions through a variety of methods. A HUD-funded study 1/ of 62 communities receiving first-year CDBG funds indicated that 27 of 62 communities allocated first-year CDBG funds to attract private capital for CD purposes. Nineteen communities--almost one-third of the sample--allocated an average of 8 percent of their first-year CDBG grants to attract funds from private lending institutions for loans to eligible residents to rehabilitate their homes. A HUD-funded followup study 2/ of communities participating in the CD-2 program year indicated that more communities had begun using CDBG funds to directly leverage private investment funds.

The District of Columbia's stated policy is

"to take whatever steps it feasibly can to promote and provide for an increase in the level and pace of private investment in the rehabilitation of existing housing and the development of new housing in the District."

However, through September 1978, according to information contained in its CD-1 to CD-3 applications, the District had not allocated CDBG funds as part of a specific plan or project to attract private capital for housing and CD purposes. DHCD officials told us that in their first-year CDBG application, they had attempted to allocate CDBG funds for the leveraging of private funds to be used in a home purchase assistance program. However, they said that HUD did not approve the program since it was considered an ineligible activity under HUD's CDBG regulations. These regulations have been revised on the basis of the 1977 Housing Act and the \$900,000 program has been resubmitted and conditionally approved for funding in CD-4.

DHCD officials also said that CDBG funds allocated and spent for various other housing and CD activities aid indirectly in attracting private funds. They cited the

1/"Block Grants For Community Development," by the Brookings Institution, under contract with HUD, Jan. 1977.

2/"Decentralizing Community Development," by the Brookings Institution, under contract with HUD, June 2, 1978.

example of using CDBG funds for public improvement projects, such as street and sidewalk and curb repairs and small park improvements. They said such improvements are added inducements to private developers investing funds in an area. However, they were unable to quantify the leveraging effect of such activities.

The District's fourth-year CDBG application sets forth a strategy for using block grant funds to increase leveraging of private resources to carry out housing and community development policies. By reviewing its application and discussing it with DHCD officials, we were able to identify about \$1.4 million (4 percent of their total CDBG funding) allocated for two housing programs designed to attract approximately \$4.6 million in private capital.

The housing activities for which these funds are allocated are (1) the home purchase assistance program which was previously mentioned and (2) a tandem rehabilitation loan program. Under the home purchase assistance program, block grant funds are allocated to attract private capital to finance mortgages on housing units. Lower-income families unable to secure financing to purchase a home are provided interest-free downpayment loans. According to a DHCD official, the ratio of public-to-private capital for this program is about 1 to 4--\$1 of CDBG funds to yield about \$4 of private capital. The tandem rehabilitation loan program is a joint program of the District and local banks and savings and loan associations to make available to low-income homeowners rehabilitation loans which might not otherwise be possible. CDBG funds are used to make deferred payment loans on part of the rehabilitation cost. These loans are not repaid until the property is sold or ownership is transferred. According to a DHCD official, the ratio of public-to-private capital generated by this program varies since the amount of the deferred payment loan varies based on an analysis of the borrower's ability to afford a loan from a private lender.

These planned activities represent a step in the right direction for the District. However, we believe the District should make greater use of CDBG funds to attract private investment. It should explore the feasibility of adopting other leveraging techniques or methods being used by other cities with CDBG funds. The following are examples of techniques in use in Dallas and Pittsburgh during our survey:

--Dallas has allocated \$1.1 million from its 1975-78 CDBG program for the purpose of guaranteeing rehabilitation loans in areas of the city where conventional home-improvement-loan activity has been low. Participating private lending institutions agree to loan an aggregate amount equal to 7.5 times the amount committed by the city. Interest charged by private lenders is below the market rate for home improvement loans. The city estimates that about 1,100 home improvement loans will be made at \$7,500 each.

--Pittsburgh has a Home Improvement Loan Program in which \$3 million of CDBG funds is combined with \$10.9 million of private funds generated from revenue bonds sold by the city's Urban Redevelopment Agency to make low-interest loans throughout the city. Under an agreement between the Urban Redevelopment Agency and 13 lending institutions, the loans are made and serviced by these institutions. The Agency agrees to then purchase the loans using CDBG funds and bond proceeds. The Home Improvement Loan Program offers to residents of the city various types of loans with differing loan ceilings and interest rates. Family income is the primary factor for determining the type of loan for which a homeowner is eligible. One type of loan available to families who do not qualify for a loan from a participating lending institution is a "forgiveness" loan. These loans are available to families with an adjusted annual income of \$7,000 or less. The terms of the loan include forgiveness of a portion (up to \$5,500) of the amount borrowed.

Recommendation to the Director, DHCD

We recommend that the Director, DHCD, aggressively pursue leveraging as a means of attracting needed funds for housing, and explore the possibility of adopting for use in the District leveraging techniques employed by other cities.

Agency comments

In his letter the Director, DHCD, said:

"Our major task in the coming year is to make our declining Block Grant entitlement go further in improving the condition of housing and neighborhoods

in the District and to encourage new development consistent with our CD Plan. In particular, this means:

- a. Leveraging CD dollars through partnerships with banks and savings and loan institutions. Our recent announcement of our plan to return some 733 vacant housing units to a habitable status, concentrated in the Bates Street area, is an example of this strategy. With the use of limited direct, long term loan assistance, we were able to provide incentives to the private sector to invest in the production of housing for low and moderate income owners and tenants. Our intent is to repeat this pattern in other neighborhoods in the city, where the private banks and [savings and loan institutions] can take the lead in causing neighborhood improvement with limited financial support from the Department."

HOUSING EXPERIENCES OF OTHER CITIES
MAY BE USEFUL TO THE DISTRICT

Housing situations, problems, and workable solutions to these problems differ from city to city. However, we believe techniques and programs used by other cities may be useful to the District. DHCD may wish to consider them when preparing its housing plan.

Housing code enforcement programs

Baltimore, Maryland, has a housing inspection and code enforcement program which has gone beyond the traditional methods of responding to complaints and inspecting multiple-family dwellings as required by law. The city operates a citywide zone patrol with inspectors who make periodic surveys of all neighborhoods to check exterior building conditions. This effort also identifies vacant or abandoned buildings.

Baltimore also has a neighborhood cooperation program. On request, volunteer citizens' groups are trained to check the outside appearance of properties in their neighborhoods and issue inspection letters and informational material to the owners of properties with exterior deficiencies. If the noted problems are not corrected within 90 days, the city inspectors follow up on the citizens' letters.

Baltimore city inspectors also inspect all homes in urban renewal and federally assisted areas, from cellar to roof, and assist owners in getting loans or grants to correct cited problems. According to officials, Baltimore's nontraditional approach to code inspection makes efficient use of limited staff and helps detect blighting influences before they result in a declining neighborhood.

Dallas, Texas, firmly enforces a minimum housing code to prevent existing housing from deteriorating. The city has enacted an ordinance for minimum standards governing housing construction, use, occupancy, and maintenance. The Department of Housing and Urban Rehabilitation enforces the ordinance through comprehensive inspections on a complaint-response or inspector-pickup basis and the securing of code compliance through repairs or demolition. Repairs or demolition may be arranged voluntarily by the owner, or may result from proceedings in court or before an Urban Rehabilitation Standards Board.

The Dallas code enforcement program includes public education to inform citizens of the importance of preventive maintenance and, where possible, is helpful rather than punitive. Considerable assistance, including work writeups on code violations and final inspection of the rehabilitation contractor's work, is provided to the property owner. The Department staff works with owners in an effort to arrange improvements without placing hardships on them. Officials said that from 1974 to 1978, minimum-housing standards ordinance violations had been eliminated in 35,000 of the 50,000 units identified as having violations.

Neighborhood housing services programs

In Dallas, the award-winning Neighborhood Housing Services, Inc., combines the efforts of neighborhood citizens, the city, banks, and private foundations toward neighborhood improvement. During the first 3-1/2 years of this program, 976 housing improvement loans were made. The loans totaled approximately \$2.3 million. This represented an average loan of about \$2,400. In addition, the city has invested about \$600,000 in this program for neighborhood improvements such as street paving and lighting, landscaping, and upgrading of park and recreation facilities.

In Pittsburgh, Pennsylvania, Neighborhood Housing Services, Inc., a nonprofit organization, operates a number of housing programs, including a Home Repair Revolving Loan Program. As a subcontractor to the Urban Redevelopment Authority of Pittsburgh, Neighborhood Housing Services was responsible for 1,683 of the 3,045 loans accepted for final processing as of June 30, 1978. As of that date, 1,547 loans valued at \$11.8 million had been closed. Details of the number of loans attributable to Neighborhood Housing Services efforts were not readily available, but the number was believed to be about one-half (about 800) of the total loans. The average amount of each loan was about \$7,600. About 1,040 loans which had been repaid were not included in the statistics cited above. No details on how many of these loans may have been attributable to Neighborhood Housing Services were available.

In the District of Columbia, during the period July 1, 1976, to November 10, 1978, Neighborhood Housing Services, Inc., disbursed or arranged for disbursement of 146 loans totaling about \$1,977,000 for home purchases, home improvements, and rehabilitation. The average loan amount disbursed was about \$13,500. If we include an additional 49 loans committed but not yet disbursed, the average loan amount was about \$16,500.

The neighborhood housing services in Dallas and Pittsburgh appear to deal with large numbers of properties with relatively small loans whereas the neighborhood housing service in the District appears to deal with a smaller number of properties with relatively large loans.

Homeownership programs

Norfolk, Virginia, has proposed a program called Transition Housing, designed to help public housing residents move into affordable homeownership or private rental housing. This proposal has been submitted to HUD for funding under the Target Projects program. The Transition Housing program will establish a ceiling rent based on the actual cost to operate a public housing unit. The difference between the ceiling rent and the normal public housing rent would become a transition payment held for the resident in an escrow account. After 2 years in the program, a transition housing family will have completed the counseling program and accumulated a target

amount in their escrow account. The escrowed amount will be available to make a downpayment toward homeownership or to provide a security deposit in renting affordable private-market housing. Through this continuing process of moving public housing residents out into the private market, public housing units will become available for more needy families.

Pittsburgh has a homeownership program entitled "Great Home Sales," in which a number of older, city-owned houses concentrated in a neighborhood are sold by lottery at very low prices (for example, \$100) to buyers who agree to rehabilitate and live in them.

Rehabilitation programs and techniques

Saint Paul, Minnesota, has or is planning a number of innovative rehabilitation programs and techniques. They include:

- A locally designed system for processing the city's CDBG-assisted rehabilitation loan program. In the past, the loan processing system used in the city's CDBG-assisted loan program paralleled the system prescribed for HUD's section 312 (rehabilitation loan) program. Concerned that the 312 system "is too cumbersome, too costly to the recipient, and has too much paperwork," housing officials were devising a system which they said would be quicker and cheaper. (Pittsburgh officials, similarly dissatisfied with the 312 system, also told us they had devised a local processing procedure.)
- A plan to make a stronger effort toward insuring that builders and investors are aware of the potential profitability in buying, rehabilitating, and renting out historic buildings. When these old houses qualify as "certified historic structures" and are rehabilitated for rental purposes, tax laws permit owners to accelerate amortization of rehabilitation costs.

- Limited use of high school building crafts students to rehabilitate homes as class projects. The school district received Comprehensive Employment and Training Act funds to pay for instructors and tools.

Other housing programs

Baltimore has a "shopsteading" program enabling potential business people to buy, rehabilitate, and set up businesses in vacant, city-owned buildings. Acquisition price for each structure and property is \$100. Each applicant is screened to determine his ability to finance the rehabilitation work privately or to repay the necessary loan (for example, a Small Business Administration loan). However, no preference is given to applicants indicating ability to finance the work privately. Applicants requiring loan assistance are accorded an equal chance to participate.

Other housing programs in Saint Paul include:

- A housing conservation program for areas needing little or no improvement. All areas of the city are classified as either improvement areas (needing some degree of housing improvement) or conservation areas (needing little or no improvement). While the bulk of the available money is spent on the improvement areas, the city is simultaneously taking a long-range view with a conservation program whose purpose is to prevent or arrest any beginning deterioration. An official said that the city's position is that prevention today is less costly than a cure several years from now.
- An arrangement enabling low-income persons to buy, move, and rehabilitate old but salvageable houses. Rather than raze old but basically sound houses when making way for commercial or new-home construction, the housing department arranges for these houses to be moved. Through "tandem loan" arrangements between banks and the city, low income people buy, move, and rehabilitate the houses. This arrangement uses a housing resource which, a housing official said, would previously have been destroyed.

SCOPE OF SURVEY

In surveying the District's housing activities, we

- reviewed DHCD and HUD policies, procedures, reports, and records;
- interviewed officials of DHCD and HUD's area office, Washington, D.C.;
- observed housing programs in operation in the District's CD Areas; and
- interviewed housing officials and observed housing programs in the following cities: Baltimore, Maryland; Dallas, Texas; Pittsburgh, Pennsylvania; and Saint Paul, Minnesota because they were considered by HUD to have effective housing rehabilitation programs supported by CDBG funds; and Norfolk, Virginia because of the long history of the Norfolk Redevelopment Housing Authority as an innovative housing agency.